Guidance for Interest Maintenance Reserve and Asset Valuation Reserve for 2009 annual reporting reflecting changes as a result of adoption of SSAP No. 43R

INTEREST MAINTENANCE RESERVE

Line 2 – Current Year's Realized Pre-tax Capital Gains/(Losses) of $______ Transferred into the Reserve Net of Taxes of $______

Include interest-rate related realized capital gains/(losses), net of capital gains tax thereon. All realized capital gains/(losses) transferred to the IMR are net of capital gains taxes thereon. Exclude credit related (default) realized capital gains and losses, realized capital gains/(losses) on equity investments, and unrealized capital gains/(losses).

All realized capital gains/(losses), due to interest rate changes on fixed income investments, net of related capital gains tax, should be captured in the IMR and amortized into income (Column 2, Lines 1 through 31) according to Table 1 or the seriatim method. Realized capital gains/(losses) must be classified as either interest (IMR) or credit (AVR) related, not a combination except as specified in SSAP No. 43R, paragraph 35. Purchase lots with the same CUSIP are treated as individual assets for IMR and AVR purposes.

Exclude those capital gains and losses that, in accordance with contract terms have been used to directly increase or decrease contract benefit payments or reserves during the reporting period. The purpose of this exclusion is to avoid the duplicate utilization of such gains and losses.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes. By capturing the realized capital gains/(losses) net of tax, the capital gains tax associated with those capital gains/(losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

Include realized capital gains/(losses) on:

Debt securities, mortgage-backed securities and preferred stocks whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) rating classification at the holding period is **NOT** different from its NAIC rating classification at the beginning of the holding period by more than one NAIC rating classification. Exclude any such gains/(losses) exempt from the IMR.

Class One Bond Mutual Funds. Include any capital gains/(losses) realized by the Company, whether from sale of the Fund or capital gains distributions by the Fund. If, during the course of the year, the SVO removes the classification of "class one" from a Class One Bond Mutual Fund, the company shall not report capital gains/(losses) in this schedule. Any such removal of the "class one" classification will cause the Fund to be reported as common stock on the applicable schedules.

Called bonds, tendered bonds, and sinking fund payments.

Mortgage loans where:

- Interest is **NOT** more than 90 days past due, or
- The loan is **NOT** in process of foreclosure, or
- The loan is **NOT** in course of voluntary conveyance, or
- The terms of the loan have **NOT** been restructured during the prior two years.

Mortgage loan prepayment penalties are not included in IMR. Treat them as regular investment income.

Interest-related gains/(losses) realized on directly held capital and surplus notes reported on Schedule BA should be transferred to the IMR in the same manner as similar gains and losses on fixed income assets held on Schedule D. A capital gain/(loss) on such a note is classified as an interest rate gain if the note is eligible for amortized-value accounting at both the time of acquisition and the time of disposition.

Determination of IMR gain/(loss) on multiple lots of the same securities should follow the underlying accounting treatment in determining the gain/(loss). Thus, the rating classifications, on a purchase lot basis, should be compared to the rating classification at the end of the holding period to determine IMR or AVR gain or loss.

Realized capital gains/(losses) on any debt security or mortgage-backed security that has had an NAIC/SVO rating classification of 6 at any time during the holding period should be excluded from the IMR and included as a credit related gain/(loss) in the Asset Valuation Reserve (AVR).

Realized capital gains/(losses) on any preferred stock that had an NAIC/SVO rating classification of RP4, RP5 or RP6 or P4, P5, or P6 at any time during the holding period should be reported as credit related gains/(losses) in the AVR.

The holding period for debt securities, mortgage-backed securities and preferred stocks is defined as the period from the date of purchase to the date of sale. For the end of period classification, the most recent available rating should be used. For bonds acquired before January 1, 1991, the holding period is presumed to have begun on December 31, 1990. For preferred stocks acquired before January 1, 1993, the holding period is presumed to have begun on December 31, 1992. For Class One Bond Mutual Funds, the holding period is defined as one calendar year to expected maturity.

Where the gain on a convertible bond or preferred stock sold while "in the money" is included in the IMR; the expected maturity date is defined as the next conversion date. "In the money" is defined to mean that the number of shares available currently or at next conversion date, multiplied by their current market price, is greater than the book/adjusted carrying value of the convertible asset. However, for a convertible bond or convertible preferred stock purchased while its conversion value exceeds its par value, any gain or loss realized from its sale before conversion must be excluded from the IMR and included in the AVR. Conversion value is defined to mean the number of shares available currently or at next conversion date, multiplied by the stock's current market price.

Other-than-temporary impairments taken on "interest-related" declines in value that are only required to be impaired in accordance with *INT 06-07: Definition of Phrase "Other Than Temporary"* because management no longer has the intent and ability to retain the investment in the issuer for a period of time sufficient to allow for recovery in value. Credit-related other-than-temporary impairment losses shall be recorded through the Asset Valuation Reserve in accordance~~ with~~ ~~*SSAP No. 98 – Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43 – Loaned-backed and Structured Securities*~~.

In accordance with SSAP No. 43R, for loan- backed and structured securities only, if the reporting entity wrote the loan backed or structured security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, the non-interest related portion of the other-than-temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR.

For derivative instruments used in hedging transactions, the determination of whether the capital gains/(losses) are allocable to the IMR or the AVR is based on how the underlying asset is treated. Realized gains/(losses) on portfolio or general hedging instruments should be included with the hedged asset. Gains/(losses) on hedges used, as specific hedges should be included only if the specific hedged asset is sold or disposed of.

For income generation derivative transactions, the determination of whether the capital gains/(losses) are allocable to the IMR or the AVR is based on how the underlying interest (for a put) or covering asset (for a call, cap or floor) is treated. Realized gains/(losses) should be included in the same sub-component where the realized gains/(losses) of the underlying interest (for a put) or covering asset (for a call, cap or floor) is reported. For a more complete and detailed explanation, refer to SSAP No. 86, Derivative Instruments, for accounting guidance.

Realized gains/(losses), on derivative transactions entered into solely for the purpose of altering the interest rate characteristics of the company's assets and/or liabilities (hedging transactions) should be allocated to the IMR and amortized over the life of the hedged assets. Realized gains/(losses), on income generation derivative transactions where the underlying interest (put) or covering asset (call, cap or floor) is subject to IMR, should be allocated to the IMR and amortized over the remaining life of the:

a. underlying interest for a put

b. covering asset for a call, or

c. derivative contract for a cap or floor

Capital gains/(losses) associated with the cash components of a replication (synthetic asset) transaction should be categorized as interest-rate related or credit related and as to sub-component within the Asset Valuation Reserve as they would be in the absence of the replication (synthetic asset) transaction.

Capital gains/(losses), other than those arising at the time of counterparty default, on the derivative component of a replication (synthetic asset) transaction that is not a swap of prospectively-determined interest rates should be categorized as interest-rate related or credit related and as to sub-component within the Asset Valuation Reserve as if they were gains and losses on the replicated (synthetic) asset(s).

Capital gains/(losses) arising from counterparty default or the curing of a previous counterparty default should be separately identified and credited or charged to the bond and preferred stock component of the Asset Valuation Reserve.

Interest-rate related gains/(losses) associated with the cash component of a replication (synthetic asset) transaction should be amortized in the same manner as they would be in the absence of the replication (synthetic asset) transaction.

Interest-rate related gains/(losses) associated with the derivative component of a replication (synthetic asset) transaction that is not a swap of prospectively determined interest rates should be amortized as if they arose from the replicated asset.

Realized capital gains/(losses) arising from a swap of prospectively-determined interest rates constituting a component of a replication (synthetic asset) transaction should be credited or charged to the Interest Maintenance Reserve using the maturity bucket corresponding to the side of the transaction with the longest interest rate guarantee period.

Gains/(losses) on dollar repurchase agreements that are traded for the fee have no IMR (or AVR) impact because they are treated as financing.

The total dollar value of these IMR realized capital gains and (losses), net of capital gains tax will be excluded from the realized gains/(losses) reported on Page 4, Line 34 in the general account.

In the Separate Accounts Statement, the total dollar value of these IMR realized capital gains/(losses), net of capital gains tax will be excluded from the realized gains/(losses) reported on Page 4, Line 3.

By capturing the realized capital gains/(losses), net of tax, the capital gains tax associated with those capital gains/(losses) due to an interest rate change is charged or credited to the IMR and amortized in proportion to the before-tax amortization.

ASSET VALUATION RESERVE

Line 2 – Realized Capital Gains/(Losses) Net of Taxes – General Account

Report all realized credit-related (default) and equity capital gains/(losses), net of capital gains tax, applicable to the assets in each component and sub-component. All realized capital gains/(losses) transferred to the AVR are net of capital gains taxes thereon. Exclude all interest rate-related capital gains/(losses) from the AVR.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes.

Report all realized capital gains/(losses), net of capital gains tax, on each debt security and mortgage-backed security whose NAIC/SVO rating classification at the end of the holding period is different from its NAIC/SVO rating classification at the beginning of the holding period by more than one NAIC/SVO rating classification. The holding period is defined as the period from the date of purchase to the date of sale. For end of period classification, the most recent available rating should be used. For bonds acquired before January 1, 1991, the holding period is presumed to have begun on December 31, 1990.

Determination of AVR gain/(loss) on multiple lots of the same fixed income securities should follow the underlying accounting treatment in determining gain/(loss). Thus, the rating classifications, on a purchase lot basis, should be compared to the rating classification at the end of the holding period to determine IMR or AVR gain or loss. ~~Permanent~~ Other than temporary impairment write-downs are treated as credit-related (losses) and recorded through the AVR, except for other-than-temporary impairments taken on interest-related declines in value, as described in *INT 06-07: Definition of Phrase "Other Than Temporary."* Interest-related other-than-temporary impairments are treated as interest-related losses and recorded through the IMR ~~in accordance with *SSAP No. 98 – Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43 – Loaned-backed and Structured Securities*~~.

In accordance with SSAP No. 43R, for loan-backed and structured securities only, if the reporting entity wrote the security down to fair value due to the intent to sell or does not have the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, the non-interest related portion of the other-than-temporary impairment losses shall be recorded through the AVR; the interest related other-than-temporary impairment losses shall be recorded through the IMR.

In addition, all gains/(losses), net of capital gains tax, on mortgage loans where:

- Interest is more than 90 days past due, or
- The loan is in the process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years

Would be classified as credit-related gains/(losses).

The gain/(loss), net of capital gains tax, on any debt security or mortgage-backed security that has had an NAIC/SVO rating classification of "6" at any time during the holding period should be reported as a credit related gain/(loss).

All capital gains/(losses), net of capital gains tax, from preferred stock that had an NAIC/SVO rating classification of "RP4," "RP5" or "RP6" or "P4," "P5," or "P6" at any time during the holding period should be reported as credit related gains/(losses) in the AVR.

However, for a convertible bond or preferred stock purchased while its conversion value exceeds its par value, any gain/(loss) realized from its sale before conversion must be included in the Equity Component of the AVR. Conversion Value is defined to mean the number of shares available currently or at next conversion date multiplied by the stock's current market price.

Report all realized equity capital gains/(losses), net of capital gains tax, in the appropriate sub-components.

For derivative instruments used in hedging transactions, the determination of whether the capital gains/(losses) are allocable to the IMR or the AVR is based on how the underlying asset is treated. Realized gains/(losses), net of capital gains tax, on portfolio or general hedging instruments should be included with the hedged asset. Gains/(losses), net of capital gains tax, on hedges used, as specific hedges should be included only if the specific hedged asset is sold or disposed of.

For income generation derivative transactions, the determination of whether the capital gains/(losses) are allocable to the IMR or the AVR is based on how the underlying interest (for a put) or covering asset (for a call, cap or floor) is treated. Realized gains/(losses), net of capital gains tax should be included in the same sub-component where the realized gains/(losses) of the underlying interest (for a put) or covering asset (for a call, cap or floor) is reported. Refer to SSAP No. 86, Derivative Instruments, for accounting guidance.

Realized gains/(losses), net of capital gains tax, resulting from the sale of U.S. government securities and the direct or guaranteed securities of agencies which are backed by the full faith and credit of the U.S. government are exempt from the AVR. This category is described in the Investment Schedules General Instructions.